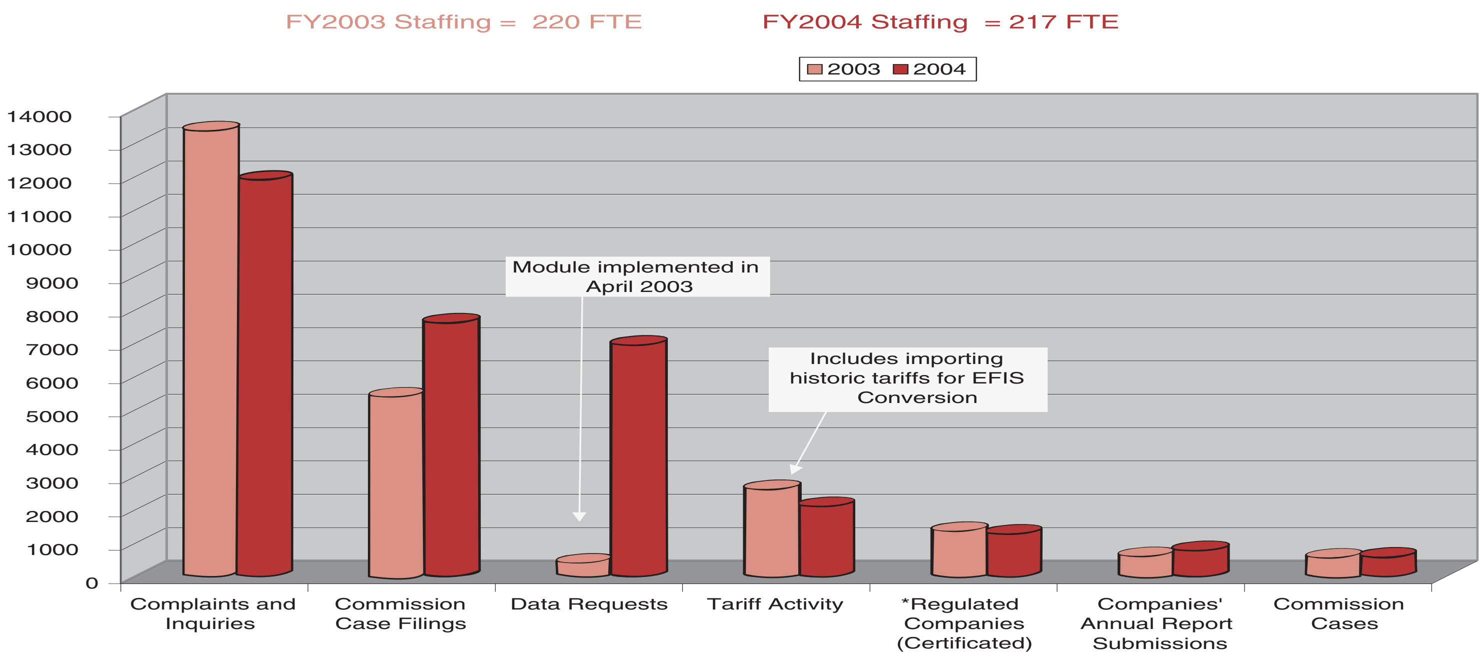
Utility Issues

Change continues to occur in utility industries, and with that change, the workload of the Missouri Public Service Commission grows as the PSC evaluates and implements these changes.

New state and federal legislation as well as federal agency activity and the changing regulatory environment have required, and will continue to require, a large commitment of resources in order for the PSC to stay current on developments and to influence state and national policy to the benefit of Missouri ratepayers.

Missouri PSC Authorized Number of Employees vs. Workload (2003-2004)



*Not all certificated companies are required to file annual reports.

ELECTRIC

AmerenUE Rate Reduction

In April 2004, AmerenUE electric customers saw their electric bills drop again under the third year of an agreement reached in a PSC Staff complaint case in 2002. Effective April 1, 2004, AmerenUE's annual electric revenues dropped by $30 million.

Under an agreement approved by the Commission on July 25, 2002, AmerenUE reduced electric rates in April of 2002, 2003 and 2004. The electric rate reduction in April of 2002 reduced AmerenUE's annual revenues approximately $50 million. The April 2002 reduction was followed by a one-time bill credit of approximately $40 million, which customers saw in their fall 2002 electric bills. The agreement also implemented a rate moratorium through June 30, 2006. Unless there is a significant or unusual event that has a major impact on AmerenUE, the company will not file for a rate increase and parties will not file for a rate decrease before January 1, 2006.

The agreement also provides for AmerenUE shareholder funding, over a four-year period, of various customer-assistance programs such as "Dollar More Clean Slate", "Dollar More", a new low-income weatherization program and creation of a residential and commercial energy efficiency fund.

In addition, AmerenUE agreed to commit to undertake commercially reasonable efforts to make energy infrastructure investments totaling $2.25 billion to $2.75 billion from January 2002 through 2006. This investment will include additional generating capacity as well as transmission system upgrades.

Missouri Electric Rates

Electric rates for Missouri's residential, commercial and industrial customers continue to be among the lowest in the nation. Through the efforts of the Missouri Public Service Commission, Missouri's electric utilities and various parties that have participated in proceedings before the Commission, all classes of Missouri customers have benefited from low electric rates while receiving safe and reliable service.

The United States Energy Information Administration, a non-partisan office in the federal Department of Energy, annually ranks states according to their average rates in cents per kilowatt-hour. In 2003, Missouri electric rates for residential, commercial and industrial customers were better than the national average (please see tables on this page).

Low-Income Customers Benefit from Collaboratives

The PSC Staff, the Department of Natural Resources and other parties have formed collaboratives with The Empire District Electric Company and Aquila to initiate various low-income weatherization programs as part of the agreements reached in the rate cases before the Commission in 2003. Through these programs, community action agencies will be able to weatherize a significantly greater number of homes than would be possible without the programs.

AmerenUE Joins Regional Transmission Organization

AmerenUE became the first Missouri electric utility to join a Regional Transmission Organization (RTO) when the Commission approved an agreement authorizing AmerenUE to participate in the Midwest Independent System Operator (MISO) through a contractual agreement with GridAmerica, LLC. The MISO is one of several RTOs authorized in recent years under Federal Energy Regulatory Commission (FERC) policy. In general, RTOs are intended to manage the day-to-day and long-term operations of the transmission systems of a group of electric utilities covering a large area and number of electric consumers.

The Commission's approval is for a five-year period. After a period of approximately three-and-a-half years, the Commission will automatically be entitled to examine

RESIDENTIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	15.63	1
New York	13.58	2
California	12.90	3
U.S. Average	**8.46**	
Illinois	8.39	16
Iowa	8.35	17
Kansas	7.67	29
Arkansas	7.25	35
Missouri	**7.06**	**40**
Nebraska	6.73	44
Oklahoma	6.73	45
Tennessee	6.41	47
West Virginia	6.23	50
Kentucky	6.65	51

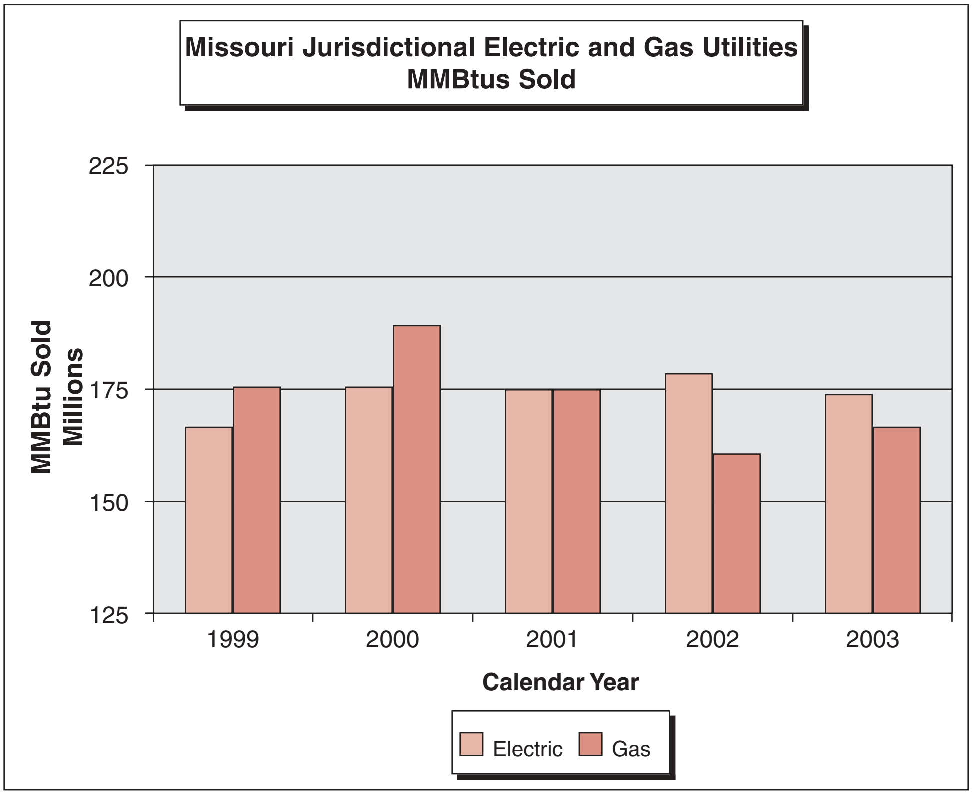
COMMERCIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	14.11	1
California	13.22	2
New York	12.46	3
U.S. Average	**7.86**	
Illinois	7.49	15
Iowa	6.56	27
Tennessee	6.45	33
Kansas	6.28	34
Missouri	**5.88**	**39**
Oklahoma	5.75	43
Arkansas	5.68	46
Nebraska	5.62	48
Utah	5.60	49
West Virginia	5.41	50
Kentucky	5.30	51

INDUSTRIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Maine	11.24	1
Hawaii	11.02	2
California	10.83	3
Illinois	5.01	16
U.S. Average	**4.88**	
Kansas	4.53	26
Missouri	**4.42**	**30**
Tennessee	4.15	35
Iowa	4.06	37
Arkansas	4.01	38
Nebraska	3.89	42
Oklahoma	3.81	47
Wyoming	3.55	50
Kentucky	3.09	51

Source: US Energy Information Administration - 2003 data



the benefits and costs of AmerenUE's RTO affiliation and participation in MISO beyond the five-year termination date.

PSC Denies Aquila Request to Pledge Missouri Regulated Assets

The Commission denied Aquila's request to assign, transfer, pledge, mortgage or encumber its Missouri utility assets to secure debt. The Commission determined that to approve the application would be detrimental to the public interest. The detriment to the public interest, the Commission determined, is the unreasonable risk of harm to Missouri ratepayers compared to the minimal benefit Aquila would receive.

Aquila asked the Commission to allow it to pledge its Missouri regulated assets to support a $430 million, three-year Term Loan, and a $100 million, 364-day Term Loan.

UtiliCorp United Recovery of Merger Acquisition Premium Denied

The Commission denied UtiliCorp United's request to recover from St. Joseph Light & Power customers, through its rates, the acquisition premium it paid to purchase St. Joseph Light & Power. The acquisition premium was estimated at $92 million.

The acquisition premium issue was remanded to the Public Service Commission by the Missouri Supreme Court in October 2003. The Missouri Supreme Court found that the Commission's original December 14, 2004 order authorizing the merger was lawful, but not reasonable, because the Commission did not decide whether the inclusion of the acquisition premium in the Commission's cost analysis of the merger would make it detrimental to the public.

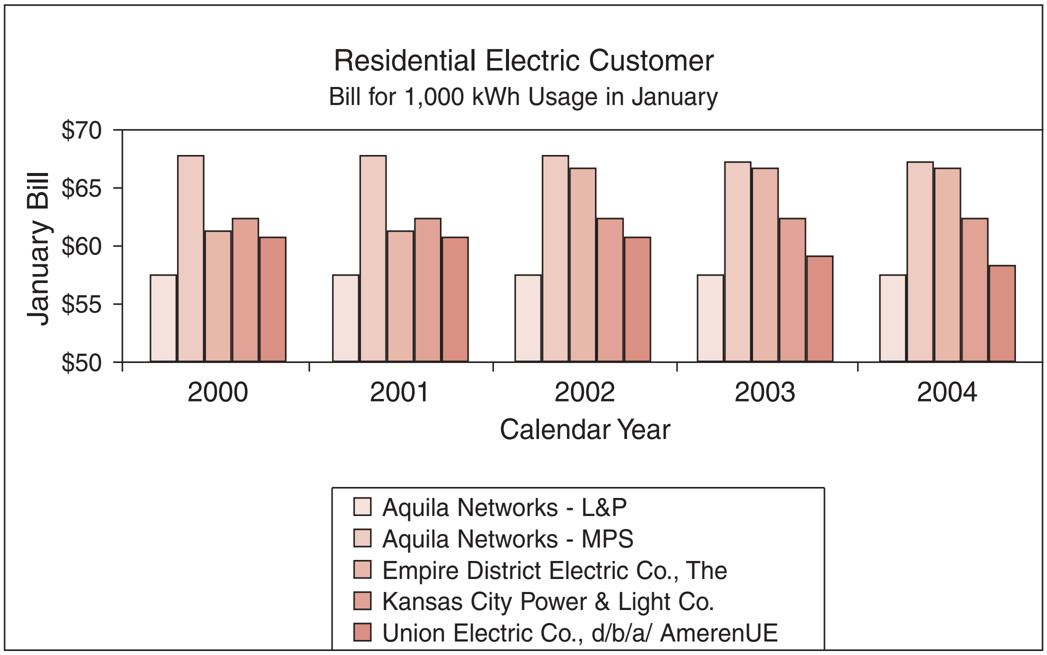
As part of its order, the Commission reaffirmed its December 14, 2000 order which authorized the merger of St. Joseph Light & Power and UtiliCorp.

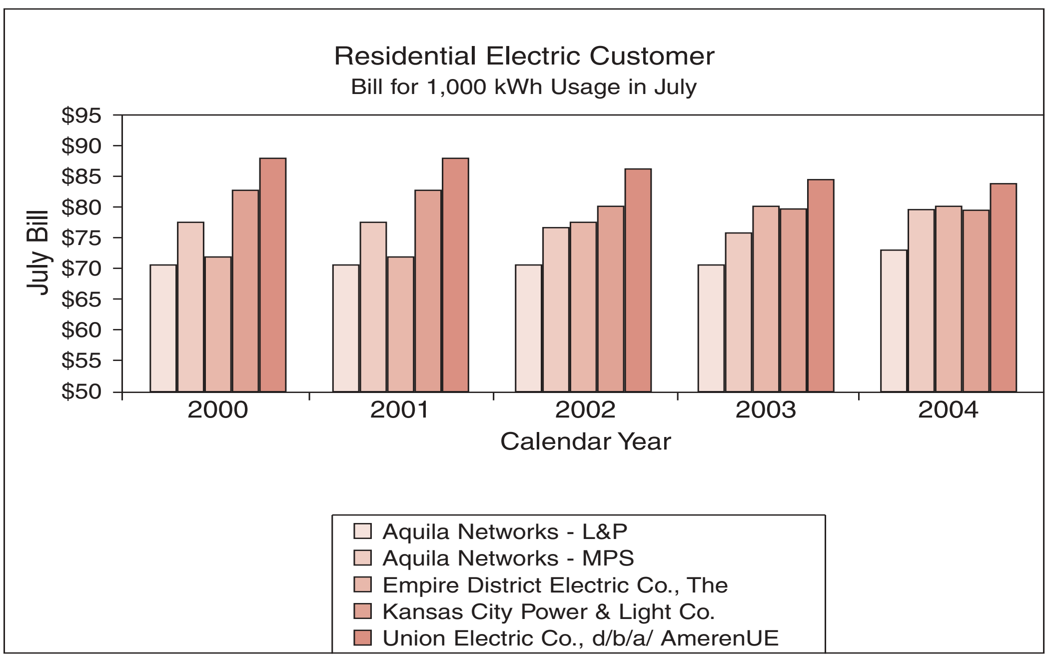
Aquila Rate Case

Aquila, Inc. d/b/a Aquila Networks – MPS and Aquila Networks – L&P filed on July 3, 2003, for a rate increase of approximately $65 million a year for its Aquila Networks – MPS customers and $14.6 million for its Aquila Networks – L&P customers. Aquila also requested a rate increase of $1.34 million a year for its steam customers.

Negotiations between the parties in this case resulted in an agreement that was submitted to the Commission. The Commission approved the agreement in April of 2004 increasing permanent rates by approximately $14.5 million a year for customers of Aquila Networks – MPS and $3.25 million a year for customers of Aquila Networks – L&P. The rates of the steam customers were raised by $1.3 million.

The agreement also includes an interim energy charge that generally reflects Aquila's fuel and purchase power costs. This charge is subject to refund





with interest based upon Aquila's prudently incurred fuel and purchased power costs over a two-year period.

The agreement also included one-time funding to conduct tall tower wind assessments, annual funding that could be used for a low-income weatherization program, and a 13-month rate moratorium.

Federal Activity in Electricity

AmerenUE's application to participate in the Midwest ISO Regional Transmission Organization (RTO) was approved by the Missouri Public Service Commission for an interim period of five years. Aquila Networks, Inc. has an application to join the Midwest ISO pending before the Commission. The Southwest Power Pool (SPP) application to also become an RTO was conditionally approved by the FERC, and it appears likely that Kansas City Power and Light and Empire District Electric Company will apply with the Commission to participate in the SPP RTO. If these applications are approved, issues regarding "seams" between these two RTOs will be important to Missouri. The Midwest ISO includes areas in the upper Midwest, as far west as Wyoming, to as far east as eastern Ohio. The SPP region includes Oklahoma, Kansas, western Missouri, and portions of Texas, New Mexico, Arkansas and Louisiana.

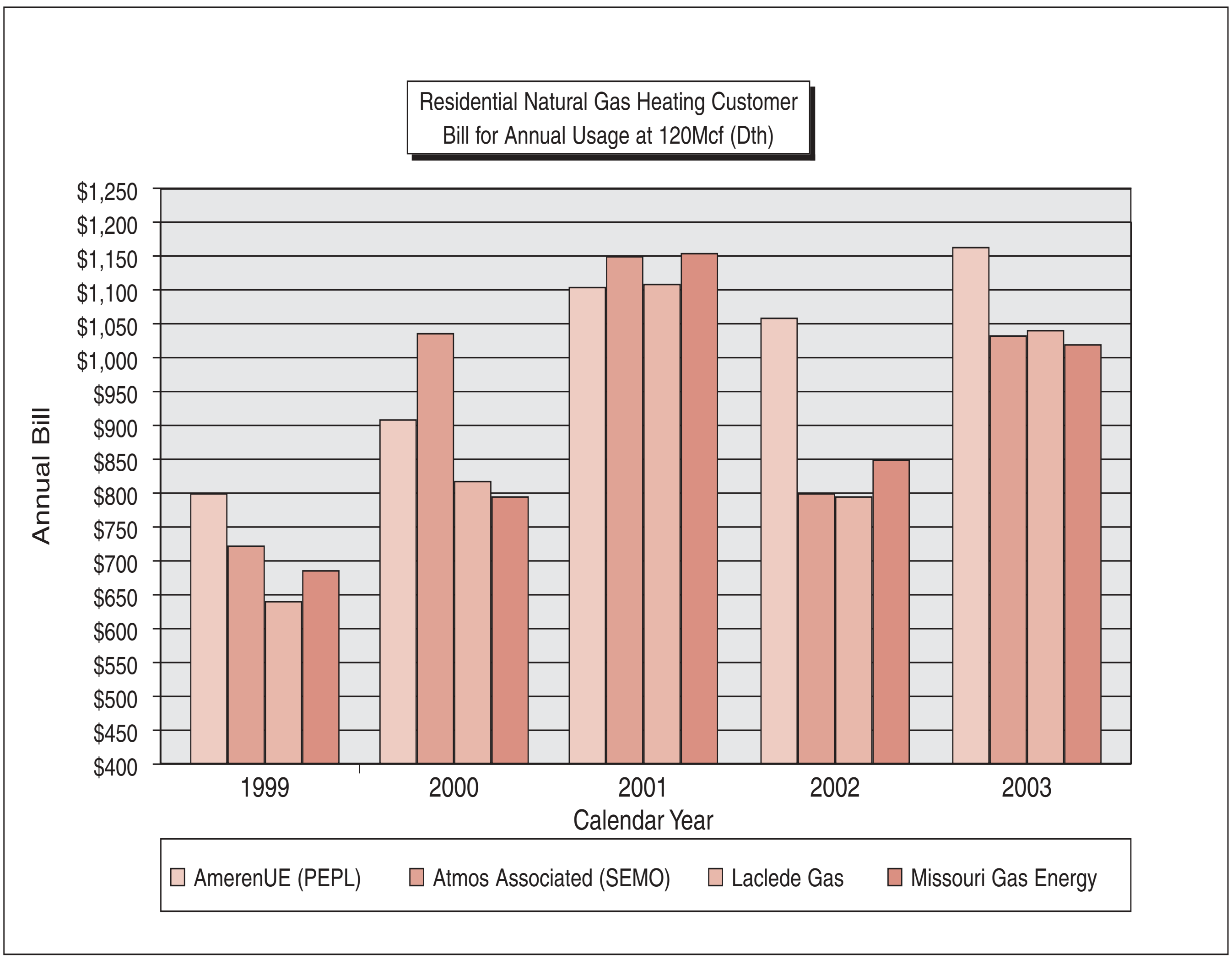
The FERC more fully delineated the role of state regulatory commissions in what it calls Regional State Committees (RSCs) in its order conditionally approving the SPP RTO. In general, RSCs are formations of state regulatory commissions that will deal with policy issues at every level.

In the SPP RTO Order, the FERC gave specific guidance as to where it would give deference to the SPP RSC on certain issues. The primary issue that the SPP RSC dealt with in this past year is on the funding and allocation of costs for transmission upgrades. Prior to the FERC SPP RTO Order, the Organization of Midwest ISO States (OMS) was formed as the RSC for the Midwest ISO.

Missouri Commission Chair Steve Gaw served as Vice President of the OMS and is on the Board of Directors of both the SPP RSC and the OMS.

The Commission's Chief Regulatory Economist, Mike Proctor, continued in his role as chairman of the OMS working group with oversight for the allocation of Financial Transmission Rights, the Midwest ISO's proposed method for hedging against congestion costs associated with its market-based congestion management system. This new market system was delayed from start-up last year and is scheduled for initial operations on March 1, 2005. In addition, Dr. Proctor chairs the SPP RSC's Cost Allocation Working Group with the task of developing a proposal for funding and allocation of costs for transmission upgrades that the SPP state commissions can jointly recommend to the SPP Board.

The Commission's Manager of Economic Analysis, James Watkins, is serving on the SPP Cost Benefit Task Force which is working with consultants approved by the SPP RSC to complete an initial cost/benefit study of the SPP region. The results of this study will be available for SPP states in making a determination regarding whether or not to approve applications for utilities to join the SPP RTO.



NATURAL GAS

Cold Weather Rule and Long Term Energy Affordability Task Force

On March 3, 2004, the Commission created a task force to examine the adequacy of the Commission's Cold Weather Rule (4 CSR 240-13.055) and to recommend changes to this rule to the Commission with sufficient time so that they could be implemented by November 1, 2004.

This task force held public meetings requesting input from the public on the existing Cold Weather Rule and to hear any thoughts on how the rule should be modified. As a result of extensive discussions between the task force members over the summer, an amendment to the Cold Weather Rule was submitted to the Commission for approval. The changes recommended by the task force as well as a number of other significant changes to the Cold Weather Rule were approved by the Commission on August 13, 2004. These changes to the Cold Weather Rule will go into effect before the 2004 heating season.

Changes included raising the temperature moratorium from 30 degrees to 32 degrees and establishing additional protections for elderly and disabled customers who meet certain income guidelines and who are registered with the utility company.

This task force was also created to examine long-term energy affordability in the state and make recommendations to the Commission for programs that could assist in helping customers who are currently struggling to afford their energy bills. This task force is currently meeting and deliberating through a large list of possible programs to assist customers. The recommendations of this group will likely include affordability programs, energy efficiency, energy education and weatherization as well as a number of other programs that are currently being considered.

Consumer Alert Regarding Natural Gas Prices

In August and September 2003, the Commission held a number of local town hall meetings designed to address: the severity and possibility of higher natural gas prices for the 2003-2004 winter heating season; to provide information on weatherization and energy saving tips; and to give out information on the Low Income Home Energy Assistance Program (LIHEAP) and various energy assistance funding programs.

The Commission held its first town hall meeting in Hannibal on August 18, 2003. This was the first of 16 town hall meetings held throughout the state.

With another expected increase in natural gas prices for the 2004-2005 winter heating season, the Commission continues its education efforts. Those include natural gas price updates to the media and educational materials on budget billing, the Cold Weather Rule and energy saving tips.

Natural Gas Price Volatility Mitigation Rule

As a result of the policy statement and recommendations of the Missouri Public Service Commission's Natural Gas Commodity Price Task Force, the Commission opened a rulemaking docket (Case No. GX-2002-0478). Rule 4 CSR 240-40.018 was developed through collaborative discussions with the regulated natural gas utilities in the state and other interested parties. This rule, which took effect on December 30, 2003, represents a statement of Commission policy that natural gas local distribution companies should undertake diversified natural gas purchasing activities as part of a prudent effort to mitigate upward natural gas price volatility and secure adequate natural gas supplies for their customers. The rule specifically notes that natural gas utilities should consider the use of natural gas storage, fixed price contracts, call options, collars, outsourcing/agency agreements, future contracts, financial swaps, options from over-the-counter markets and other tools utilized in the market for cost-effective management of price and/or usage volatility to balance market risks, benefits and price stability.

Energy Roundtable

On November 3, 2003, the PSC Staff held a roundtable on Missouri's Electric Generation and Transmission Infrastructure and Ratemaking Predetermination Issues. This roundtable was held in response to several different parties' interest in discussing statewide demand for electricity and the current and planned generation resources to meet that demand.

This roundtable also included presentations from different parties on ratemaking predetermination since this topic had been a contentious issue in the previous legislative session and was anticipated to be an issue in the upcoming legislative session. The presentations from this roundtable are currently posted on our internet site under electric / publications.

AmerenUE's Rate Case

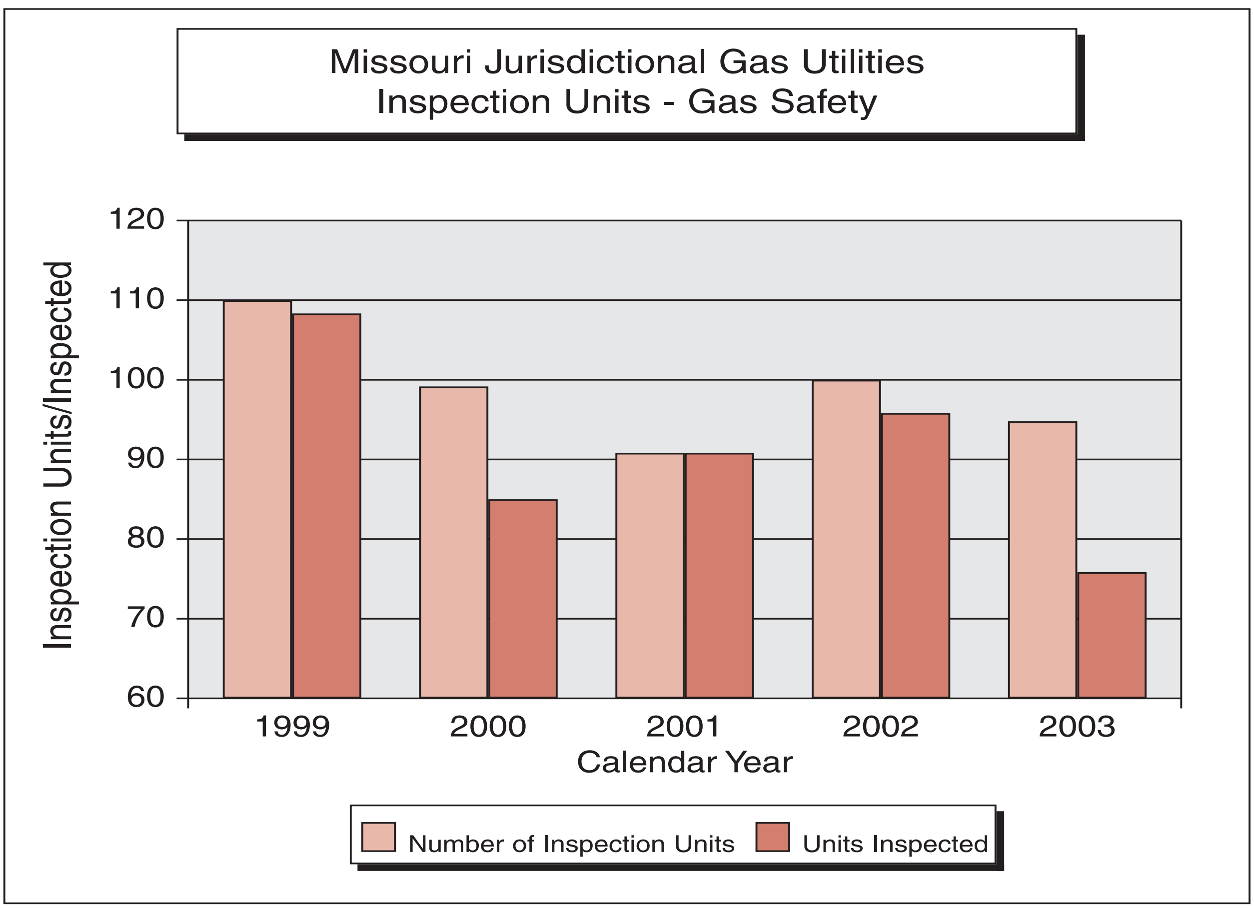
On May 23, 2003, AmerenUE filed a rate case with the Commission seeking to increase natural gas revenues by approximately $26.7 million a year. Negotiations between the parties in this case resulted in an agreement which the Commission approved on January 13, 2004. The agreement called for an increase of approximately $13 million in annual natural gas revenues and it included annual funding of $100,000 for an experimental weatherization/low-income program.

Aquila Networks Inc. Rate Cases

On August 1, 2003, Aquila Networks, Inc. (Aquila) filed a natural gas rate case with the Commission seeking to increase annual revenues by approximately $5.6 million in its Missouri Public Service (MPS) district and by approximately $800,000 in its St. Joseph Light & Power (SJLP) district. Negotiations between parties in this case resulted in an agreement, ultimately approved by the Commission, increasing annual natural gas revenues by approximately $2.6 million for the MPS district and by $800,000 for the SJLP district. The agreement included annual funding of approximately $135,000 for an experimental weatherization/low-income program in the Sedalia area.

AmerenUE Purchase of Aquila Networks Eastern District Gas Distribution System

On December 3, 2003, AmerenUE and Aquila, Inc. filed an application for authority to transfer Aquila's Eastern District, which provides natural gas



service to customers in and around Rolla, Salem and Owensville, Missouri from Aquila, Inc. to AmerenUE. As a result of negotiations between the parties, an agreement was submitted to the Commission on March 30, 2004. After reviewing all recommendations and documents filed in the case including the agreement between the parties, the Commission approved the sale on April 27, 2004. After Commission approval, Aquila, Inc. officially transferred the Eastern District over to AmerenUE on May1, 2004.

Infrastructure System Replacement Surcharges

The Commission implemented a rule on May 30, 2004, establishing the definitions, parameters and procedures relevant to the filing and processing of petitions for an Infrastructure System Replacement Surcharge (ISRS), including the information that a Local Distribution Company (LDC) must provide when it files a petition to establish, change or reconcile an ISRS.

This rule was necessitated by the enactment of House Bill 208 by the 92nd General Assembly. The Governor signed the legislation on July 16, 2003, making it effective August 28, 2003. The Commission must fulfill its statutory duties within the 120-day timeframe set out in the law. Implementation of this rule helps the Commission in administering the enacted statute. LDCs may file for an ISRS which would allow them to establish a surcharge to provide for the recovery of costs for eligible infrastructure replacements; provided that the ISRS, on an annualized basis, must produce ISRS revenues of at least the lesser of one-half of one percent of the LDCs base revenue level approved by the Commission in the LDCs most recent general rate case proceeding or one million dollars, but not in excess of ten percent of the LDCs base revenue level approved by the Commission in its last general rate proceeding.

Missouri Gas Energy (MGE) implemented its first ISRS on April 1, 2004. The Commission approved MGE's ISRS after reviewing the Staff's recommendation and other documents filed in the case including an agreement between the parties. The Commission approved the agreement on March 7, 2004.

Laclede Gas Company implemented its first ISRS on June 10, 2004. The Commission approved Laclede Gas Company's ISRS after reviewing the Staff's recommendation and other documents filed in the case including an agreement between the parties.

Underground Utility Damage Prevention Statutes

The PSC worked with the Missouri One-Call System (MOCS), underground utility operators, and representatives of excavation contractors to pass House Substitute for House Committee Substitute for House Bill No. 425 during the 91st General Assembly. This legislation, which was signed by Governor Holden and became law on August 28, 2001, establishes a true one-call system in Missouri.

All owners of underground facilities in Missouri are now required to become members of MOCS and with "one call", a person planning excavation work will have all the underground facility owners in the area of the proposed excavation notified and the facilities marked.

Universal participation in the MOCS will increase public safety by better protecting the state's underground infrastructure. All owners and operators of underground facilities in first- and second-class counties were required to become members of MOCS before January 1, 2003, and in third- and fourth-class counties before January 1, 2005.

Missouri Association of Natural Gas Operators

Missouri Association of Natural Gas Operators (MANGO) is a nonprofit organization comprised of Missouri natural gas operators (investor-owned and municipal systems). These operators work together with the PSC Gas Safety/Engineering Staff to enhance the operations and safety of natural gas systems throughout the state.

MANGO works with the PSC to review existing regulations, clarify interpretations and provide support in developing new regulations. The goal is to work together to address operations, maintenance, and emergency response issues, as well as potential hazards (such as directional drilling, defective materials, and other issues) and to foster continuing dialogue to operate Missouri natural gas systems as safely as possible.

The PSC and MANGO hold quarterly meetings to stay current on issues/trends in the industry and other issues affecting the operators' operations. In addition, the PSC and MANGO sponsor an annual pipeline safety seminar to help train and educate operators on a wide variety of pipeline and pipeline safety issues, including installation, operations, maintenance, emergency response, and products used in the industry.

Federal Natural Gas Activities

Decisions by the Federal Energy Regulatory Commission (FERC) directly impact Missouri ratepayers since Missouri's natural gas utilities must use FERC-regulated interstate pipelines for delivery of their natural gas supplies. The PSC believes its involvement in FERC and related judicial proceedings is necessary to ensure that Missouri natural gas consumers receive reliable service at reasonable rates.

There are 10 interstate pipelines directly serving Missouri with an additional 4-6 upstream pipelines used by Missouri natural gas utilities. The PSC actively participates in many proceedings, company-specific and generic, focusing on those having the greatest impact to Missouri and/or those where representation of Missouri interests is limited or absent.

The PSC's federal gas activities resulted in $68.9 million in cost savings ($40.8 million in refunds and $28.1 million in rate reductions) for Missouri consumers during fiscal year 2004.

The three pipelines delivering a majority of the state's natural gas are: Southern Star Central Gas Pipeline Inc. (SSC), Centerpoint Energy-Mississippi River (MRT), and Panhandle Eastern Pipe Line Company, LP (Panhandle). SSC serves western Missouri, including the Kansas City, St. Joseph, Springfield and Joplin areas and has a small lateral terminating in St. Louis. MRT serves St. Louis and portions of southeast Missouri. Panhandle serves a number of systems across the central part of the state.

Kansas Ad Valorem Tax Refunds

Since 1989, the PSC has been aggressively seeking refunds of Kansas ad valorem taxes unlawfully collected from SSC and Panhandle consumers between 1983 and 1993. As a result of those efforts, Missouri ratepayers have received $62.6 million in refunds — $13 million during 1994-95, $7.3 million during 1998-99, $1.5 million during 2000-01, and $40.8 million during 2003-04.

The majority of the refunds received during 2003-04 were the result of settlements entered into with all the large Kansas natural gas producers, except for $10.2 million Pioneer Natural Resources was directed to pay as a result of the PSC's litigation of Missouri's claims. The PSC is currently continuing to pursue certain unpaid refunds other parties have deemed uncollectible.

Southern Star Central Gas Pipeline Inc. (SSC)

Missouri customers received approximately $9.9 million in cost-savings during FY 2004 as a result of the litigated result of affiliate cost issues and a cost-of-service settlement in SSC's 1995 rate case.

On November 27, 2002, SSC made its annual fuel use and loss reimbursement filing (Docket No. RP03-135), seeking significant increases in its reimbursement percentages, particularly with respect to storage injections. In response to the PSC's protest of the filing, FERC accepted the subject tariff sheets effective January 1, 2003, subject to refund and the outcome of a May 2004 hearing. A PSC staff member testified on behalf of the PSC. An initial decision from the FERC administrative law judge is anticipated in late September 2004, with a Commission review of that order sometime during the first half of 2005.

FERC approved SSC's proposal (Docket No.

RP03-356) to implement daily allocations of gas on its system on November 1, 2003. Since rehearing of FERC's order was requested, parties await a final order in this docket.

SSC's $10.5 million Southwest Missouri Expansion Project (Docket No. CP02-416) to provide an additional 66,800 Dth/day to serve electric power generation and natural gas utilities load growth was placed in service during September 2004.

On May 3, 2004 SSC filed with the FERC for a $49.5 million increase in revenues, generally representing a 35%-57% rate increase for its Missouri customers. Those rates go into effect November 1, 2004, and are subject to a hearing and partial refund. The current procedural schedule establishes an April 2005 hearing and anticipates an initial decision by mid-September 2005.

Centerpoint Energy-Mississippi River (MRT)

As a result of a 2001 settlement in MRT's last rate case, Missouri customers have experienced over $15.6 million in cost-savings during FY 2004. That settlement also contained a conditional rate moratorium (precluding increases to base transportation and storage rates) through September 2006.

Enbridge Pipelines-KPC (KPC)

A portion of the gas supply for Kansas City is transported over KPC. FERC allowed KPC (in Docket No. CP96-152) to begin charging FERC transportation rates, which were significantly higher than what the PSC believed reasonable. Although the PSC obtained a favorable U.S. Court of Appeals decision in its appeal of FERC initial rate orders during December 2000, the PSC believed FERC's subsequent orders on remand were erroneous. Therefore the PSC filed another appeal (Case No. 02-1132) on April 17, 2002.

On August 12, 2003, the court once again remanded the matter to the FERC because it found the FERC's previous orders on remand were not reasonable. Approximately $1.8 million per year is at issue on rates paid by Missouri Gas Energy customers from November 1997 through November 9, 2002, the date final rates in KPC's subsequent rate case (Docket No. RP99-485) became effective. Parties await FERC's action on the most recent remand. Missouri customers have received approximately $2.6 million in cost-savings during FY 2004 as a result of the litigated result of KPC's 1999 rate case.

Other Proceedings

The PSC filed an appeal of FERC's (US Court of Appeals DC Circuit No. 04-1099) October 31, 2002 and January 29, 2004, orders eliminating the 5-year right-of-first-refusal term cap for firm service contracts. The PSC's appeal was consolidated into AGA v. FERC (No. 04-1094).

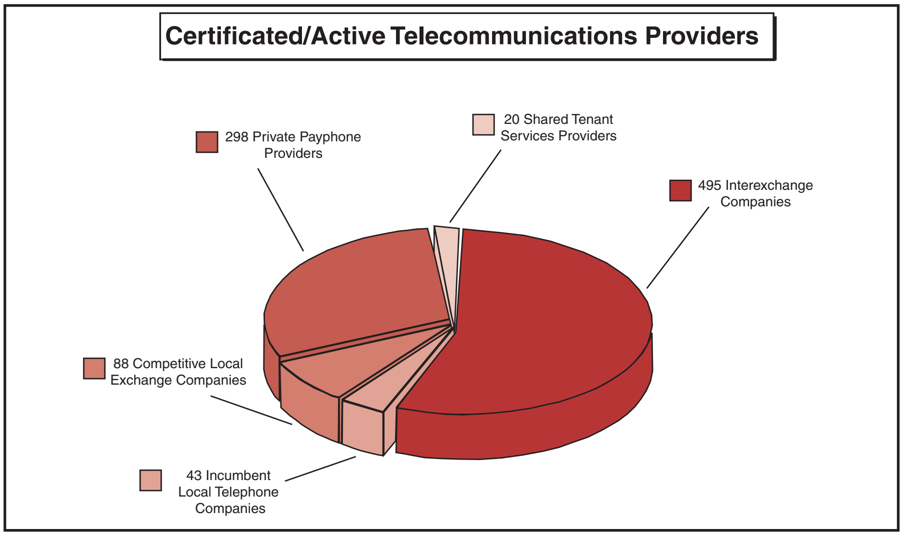
The PSC also submitted comments with respect to the Gas Technology Institute's (GTI's) application to impose a discountable surcharge on volumes transported through interstate pipelines (Docket No. RP04-378).

Other significant FERC generic policy orders issued during fiscal year 2004 were: Order No. 634-A - Regulation of Cash Management Practices (RM02-14); Order 644 - Amendments to Blanket Sales Certificates (RM03-10); Order No. 646 - Quarterly Financial Reporting and Revisions to the Annual Reports (RM03-8); Order No. 649 – (RM02-4) Critical Energy Infrastructure Information; and Order No. 2004 - Standards of Conduct for Transmission Providers.

TELECOMMUNICATIONS

Relay Missouri—Captioned Telephone Services

The Missouri Public Service Commission oversees the administration of the Relay Missouri service in the state. Relay Missouri was established by the Legislature in 1991 and provides deaf, hard-of-hearing and speech-impaired citizens access to the telephone network. A communications assistant translates a call so that a deaf, hard-of-hearing, or speech-impaired party can communicate with any other party.



New state-of-the-art technology to enhance telecommunications service for those who are hard-of-hearing, or who have experienced hearing loss, will become part of Relay Missouri. The Missouri Public Service Commission has approved the use of Voice Carry Over (VCO) technology through the use of a CapTel captioned telephone. Individuals who have a hearing loss severe enough to prevent them from being able to communicate effectively over the telephone, but can speak clearly, will be able to benefit from this technology.

CapTel service allows some deaf and hard-of-hearing individuals to use their own voice, and allows them to read what the other party is saying from a small screen on a special CapTel phone set. A CapTel communications assistant repeats into a microphone all that the other party says, and a computer translates spoken word into text, and sends the text to the CapTel phone set. CapTel service produces a quicker, more natural, relay call for those who can use it.

Relay Missouri is funded through a monthly, per-line surcharge. The current surcharge is 10 cents. The Relay Missouri surcharge is reviewed at least every two years, but not more than on an annual basis. This surcharge also funds the Adaptive Telephone Equipment Program administered by the Missouri Department of Labor.

The Relay Missouri Advisory Committee assists the Missouri Public Service Commission in its administration of this program.

Telephone Service Quality in Missouri

During the 2004 fiscal year, Missouri basic local telecommunications companies continued to provide high quality service to its consumers. Many of these companies were faced with the challenges of inclement weather and with many counties being declared as natural disaster areas during the year. The quality of service component most affected was Out of Service Cleared within 24 hours. Overall, Out of Service trouble increased 8% compared to last fiscal year. This increase was not evenly spread over a year's time frame, but in high volumes with the inclement weather patterns. Listed below is the statewide average of performance levels of service objectives monitored:

* In response to 519,272 requests for basic local telecommunications service, the Missouri telecommunications industry installed 92.22% of basic local service requests within five days. The Missouri telecommunications industry also met 95.92% of its commitments to install service on the day specified to the customer.

* Answered calls to the operator approximately 8.7 seconds after the customer dials "0".

* Answered calls to the company's repair center or business office in an average of 11.5 seconds.

* Received an average of 2.03 trouble reports per 100 customers.

* Restored 82% of out-of-service conditions within 24 hours.

* Met 91% of commitments to repair service by the day specified to the customer.

Telephone Numbers

In the past, the Public Service Commission has reviewed recommendations for area code relief. The Commission reviewed and implemented methods to conserve telephone numbers through various number conservation efforts, including Rate Center Consolidation, Number Pooling, Reclamation, and Sequential Number Assignment to extend area code relief. Rate Center Consolidation was implemented in the 314 area code reducing 14 rate centers to 7. In addition, Number Pooling was implemented in the 314, 816, 573, 660, 636, and 417 area codes. Under this concept, telephone companies receive telephone numbers in blocks of 1,000 instead of 10,000.

The Telecommunications Department Staff continues to investigate code usage, reclamation of unused telephone numbers, and number conservation implementation. Through PSC conservation efforts, the lives of the area codes have been extended. Current exhaust projections for Missouri area codes are as follows:

314 -- First quarter 2012
636 -- Second quarter 2023
573 -- Third quarter 2009
417 -- Third quarter 2008
816 -- Third quarter 2012
660 -- First quarter 2024

Competition for Basic Local Telephone Service

In December 2003, the PSC issued a decision on the status of business and residential competition in certain areas served by Sprint Missouri, Inc. The PSC found that local telephone competition exists in the Kearney, Rolla, and Norborne exchanges. The PSC previously found that Southwestern Bell faces local competition for residential customers in St. Charles and Harvester and for business customers in St. Louis and Kansas City. Southwestern Bell Telephone recently asked the Commission to open another investigation into the state of competition in its remaining areas.

The PSC first authorized local exchange telephone competition in 1997. Since that time, approximately 90 companies have received Commission approval to provide local telephone service in competition with traditional incumbent local exchange carriers.

Competitors can provide local exchange telephone service in a variety of ways including: (1) through the resale of the incumbent's facilities; (2) by using portions of the incumbent's network (called Unbundled Network Elements); or (3) through the use of their own facilities-based network.

Monitoring of Wholesale Service to Competitors

In late 2001, Southwestern Bell Corporation (SBC) was permitted to enter and compete in the interLATA long distance telecommunications market. SBC's provisioning of wholesale service to competitors is currently being monitored by approximately 120 performance measures. These measures are divided into 1,328 submetrics.

On average, SBC has met 93.4% of those performance measures showing activity since the performance measures were implemented. Fiscal year 2003 performance results range from 93.1% to 95.9%. There are 116 Missouri competitors covered by these measures. If SBC fails to achieve a certain level of performance metrics, the company is obligated to pay damages to the competitor and/or the Missouri state treasury.

Communities Providing Cable Television, Telephony and Internet Services

Under state law (Sections 392.410 and 71.970, RSMo 2000), the PSC evaluates the economic impact of municipalities providing cable television, telephony and internet services to their citizens. The PSC reports its findings to the legislature by December 31st of each year until 2007.

In 2003, four cities with a combined population of 21,322 residents reported providing cable television services to approximately 14,000 subscribers resulting in collected aggregate revenues of approximately $3,542,892, experienced identifiable aggregate costs of $3,068,482 and 11 employed full-time employees related to providing these services.

Nine cities indicated they provide facilities and services to access the Internet to approximately 14,000 customers, collected aggregate revenues of approximately $2,960,000, experienced identifiable aggregate costs of approximately $1,326,929 and 10 full-time employees related to the providing of these services. It was noted that many of the Internet customers were also cable television subscribers.

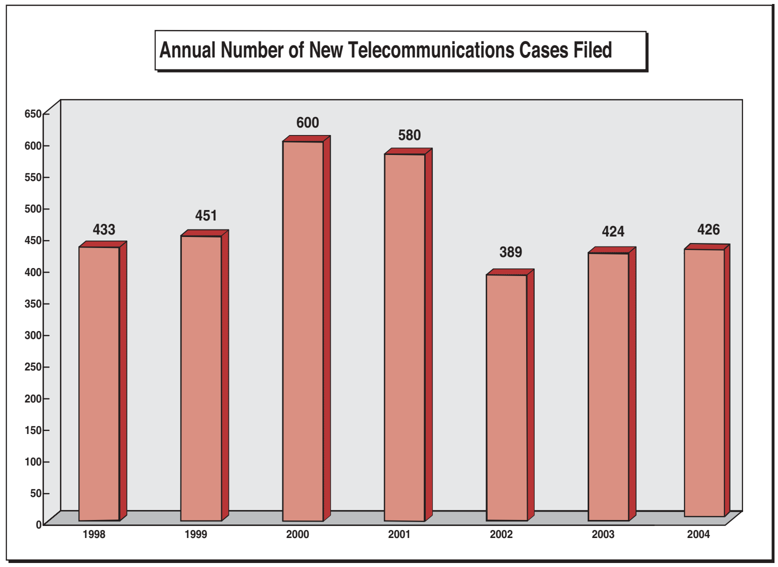
There are no municipalities offering telephony services.

The main reasons identified by municipalities for offering cable television and internet services remained the same as the year before:

- To stimulate economic development;
- As a response to poor quality of service by a private firm;
- To provide an alternative to the existing private firm or firms;
- No private service was provided or the private firm had no plans to upgrade facilities to offer desired enhanced services.

Rule Revisions

The PSC is in the process of drafting a rule that identifies the limitations and requirements for establishing and applying monthly charges and taxes for telecommunications services on residential and business customer bills. The purpose of the rule is to make telephone bills easier to read and to make it easier for consumers to comparison shop for telephone service.



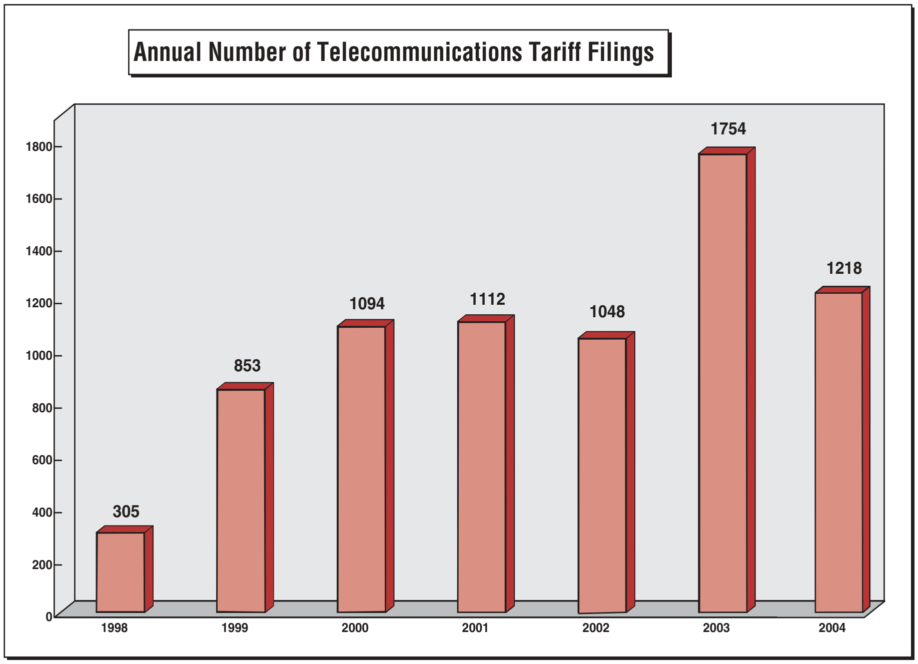
The PSC finalized several telecommunications rules addressing the following issues: protection of customer proprietary network information (i.e., quantity, technical configuration, type, destination, location and amount of use of a telecommunications service by a customer); truth-in-billing; customer notification requirements for company name changes and rate changes; tariff filing requirements; notification requirements for companies ceasing operation or filing bankruptcy; and filing requirements for competitive local exchange carriers.

The PSC continues to work on rules related to the inter-company record exchange process. A status update and summary of all pending rulemakings can be found on the Commission's web site at http://www.psc.mo.gov/publications/PSC_Rule_Tracking_Sheet.xls.

Consumer Outreach

The PSC continues to update the "Show-Me-Rates" price comparison center web site http://www.psc.mo.gov/teleco-showmerates.asp. Show-Me-Rates is an on-going project that includes rates for local toll and in-state long distance calls and provides contact information for various competitive local telecommunications companies throughout the state.

The PSC web site includes telecommunications-specific information to keep the public informed. By



choosing Consumer Information – Telecommunications, consumers can receive helpful information on topics such as: low-income telecommunications support programs (Lifeline/Link-up); what the PSC regulates; saving money on phone repair bills; understanding your telephone bill; 900 numbers and telemarketing. Consumers can also access a "Consumer Bill of Rights" section that provides guidance on issues such as changing providers, 911, discontinuance of service and bill dispute processes.

Federal Telecommunications Activity

The PSC continues to closely monitor federal telecommunications activity at the Federal Communications Commission (FCC), other state commissions and the federal courts. The PSC filed comments in proceedings before the FCC on universal service issues, pricing rules for unbundled network elements and the National Association of State Utility Consumer Advocates' (NASUCA) petition seeking a prohibition on carriers placing separate line items on bills unless those charges are expressly mandated.

Interconnection Agreements/Wholesale Agreements

Interconnection agreements, or wholesale agreements, are negotiated or arbitrated contracts between two telecommunications carriers. As part of the approval process enabling Southwestern Bell Telephone, LP (SWBT) to provide InterLATA long distance service, a generic interconnection agreement is available between SWBT and those competitive local exchange providers interested in adopting the terms of that generic contract. The generic agreement expires in March 2005. Over the next few months, negotiations and arbitrations are expected to continue as carriers work to develop contracts to replace the generic agreement.

In 2004, the United States Court of Appeals vacated and/or remanded much of the FCC's rules that outline incumbent local exchange carriers' obligations to make elements of their networks available on an unbundled basis to new competitive entrants. The FCC continues to work on these rules, with state commissions playing a limited role. Since the rules could have a significant impact on the future of the competitive telecommunications market, the FCC has encouraged carriers to voluntarily negotiate terms and conditions that will allow competitors to purchase the various components of an incumbents' local network. These agreements, characterized as commercial agreements, contain the prices, terms, and conditions for the competitive company to obtain network elements from the incumbent carrier. However, the PSC's authority over these "commercial" agreements remains controversial and is subject to future determinations by the FCC.

Local Number Portability

Local number portability refers to the ability of a customer to retain his/her telephone number when he/she changes telephone providers. According to FCC requirements, telephone companies, including wireless providers, were expected to have implemented local number portability no later than May 24, 2004.

In 2004, the PSC received requests from 37 rural incumbent local exchange carriers seeking a suspension and/or modification of the FCC's wireline-to-wireless local number portability requirements. Under wireline-to-wireless portability, customers are able to take their wireline telephone numbers to a wireless telephone. Some carriers sought suspension to avoid an adverse economic impact on customers or an undue economic burden on the company. Other carriers sought suspension to allow time to replace certain components of their networks. All carriers sought modification to address certain issues that the FCC declined to address regarding the transporting of calls. The PSC has granted suspensions and/or modifications of six months to two years for most of these companies.

2-1-1 – Information and Referral Services

The FCC designated certain numbers for abbreviated or three-digit dialing. One of these numbers, 2-1-1, provides the public with easy access to community resources in situations that are not immediately life-endangering, but still represent a serious but less urgent threat to basic human needs such as housing assistance, counseling and abuse programs.

In 2004, the PSC initiated a rulemaking to establish the requirements for the assignment, provision and termination of 2-1-1 service in Missouri. Entities interested in being a 2-1-1 provider in an area in Missouri must submit an application to the PSC describing their technical, financial and managerial resources and abilities to become an information and referral provider.

In June 2004, the PSC approved an agreement authorizing the Heart of America United Way as a 2-1-1 provider in 16 counties surrounding the Kansas City area.

Voice Over Internet Protocol

On February 3, 2004, the Commission established a case (TW-2004-0324) to further its knowledge of Voice over the Internet Protocol (VoIP) technology and to prepare comments to the FCC on this subject.

The PSC Staff conducted workshops, prepared a report on how VoIP technology is used in the marketplace, and on May 3, 2004, hosted a roundtable on VoIP with Commissioners and members of the industry.

VoIP is a relatively new technology that utilizes voice conversations using Internet Protocol (IP) as a transport technology. Software and computing devices convert voice conversations into digitized packets of data and transmit these packets over either the public Internet or managed Internet protocol networks. Many VoIP-related services enable calling to and from the public switched telephone network, the traditional telephone network. Other VoIP services traverse as data packets entirely on the Internet, such as a computer-to-computer call. When VoIP is used as a replacement for traditional telephone service, VoIP requires a "broadband" connection to achieve the necessary speed.

Price Cap Regulation

Price cap regulation allows maximum price changes for basic local telephone service based upon a consumer price index adjustment and rate rebalancing. Under a state law passed in 1996, a telephone carrier can be designated a price cap regulated company if it shows that:

1) an alternative local exchange company is properly certificated to provide local exchange telecommunications services in a service area; and

2) the alternative local exchange carrier is, in fact, providing such services in the service area.

On May 20, 2002, ALLTEL Missouri, Inc. (ALLTEL) notified the PSC that it was electing to be regulated under the price cap provisions set forth in Section 392.245.2. In a decision reached on July 20, 2004 (Case No. IO-2002-1083), the Commission determined ALLTEL was not eligible for price cap status because a telecommunications company operating in ALLTEL's service territory is not providing what the legislature intended as the basic local services necessary to invoke a lesser degree of regulation for small incumbent local exchange carriers as set forth in Chapter 392.

BPS Telephone Company currently has a case before the Commission (Case No. TC-2002-1076) in which it seeks price cap status. The Commission has established the procedural schedule in that case.

Rate Cases/Earnings Investigations

On September 25, 2003, the Commission approved an agreement which reduced the annual telephone revenues of Steelville Telephone Exchange, Incorporated by approximately $330,440. The agreement submitted for Commission consideration was the result of a PSC Staff investigation into the earnings of the telephone company. As a result of the agreement, Steelville Telephone Exchange reduced its intraLATA and interLATA terminating rates and enhanced E911. The agreement was filed by the PSC Staff, the Office of the Public Counsel and Steelville Telephone Exchange, Incorporated.

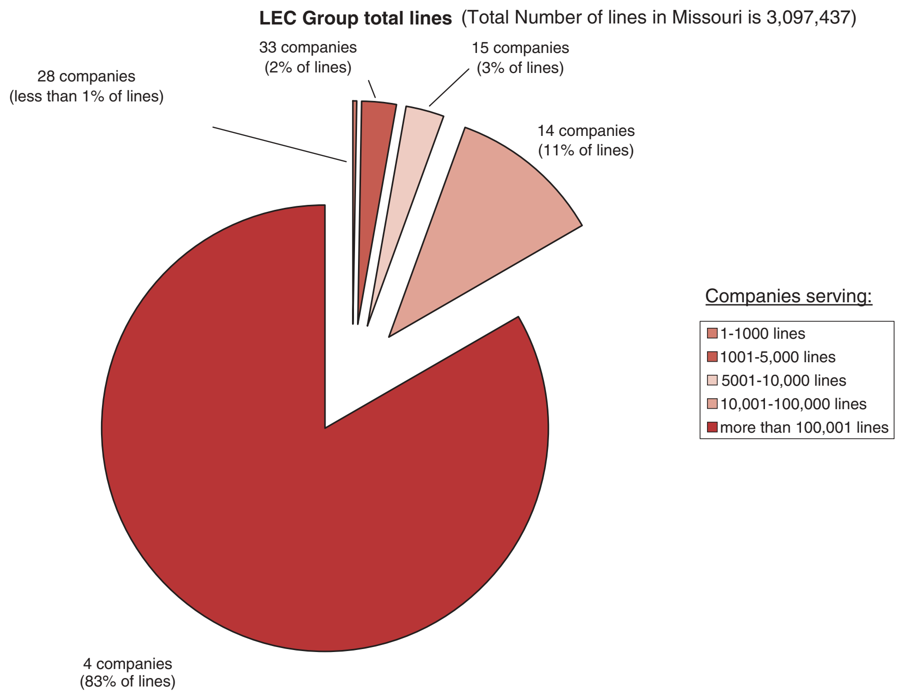
On March 29, 2004, the Commission approved an agreement which authorized Fidelity Telephone Company to increase annual telephone revenues by approximately $1.6 million. Under the agreement, the basic monthly telephone rate for one-party residential and business customers increased as well as rates for a number of non-basic telephone service offerings such as the optional local toll Outstate Calling Area (OCA) plan. Fidelity Telephone was also authorized to increase the rates charged to long distance carriers for access to the Fidelity Telephone Company network to complete a long distance call. The agreement approved by the Commission was submitted by the PSC Staff, the Office of the Public Counsel and Fidelity Telephone Company.

On April 29, 2004, the Commission approved an agreement which reduced the annual telephone revenues of Cass County Telephone Company by approximately $320,000. Local ratepayers received a reduction in Tier 4 and Tier 5 MCA rates; interexchange carriers received a reduction in terminating carrier common line rates; and local governments received a reduction for enhanced E911 service. The agreement was filed by the PSC Staff, the Office of the Public Counsel and Cass County Telephone Company.

MCA/Calling Scope Task Force

In March 2004, in response to requests by the Office of Public Counsel, the Commission established a case (TW-2004-0471) and named a task force to investigate the Metropolitan Calling Area (MCA) plan and calling scopes in Missouri. The primary issues to be addressed include what action, if any, should be taken by the Commission regarding the MCA plan and rural calling scopes. The Task Force is comprised of various legislators, members of the telecommunications industry, the Office of the Public Counsel, Missouri Municipal League, a consumer, and the PSC Staff. The Task Force filed a report on September 29, 2004.

Local Exchange Companies (LEC)*



*As of December 31, 2003

Water and Sewer Department

Department Personnel

The Water and Sewer Department consists of seven professional/technical positions and is split into two sections, Rates and Engineering. Although the Department is split into the Rates and Engineering Sections, staff members work closely together as a team and it is not unusual for them to share responsibilities.

As with most departments within the Commission's organizational structure, the Department's management personnel carry out not only their administrative duties, but are also involved in a great deal of the technical and analytical case work that falls within the scope of the Department's responsibilities.

As a group, the Department's staff members have compiled nearly 150 years of regulatory and/or water and sewer utility work experience, with much of that experience having been gained by their work in the Department.

Department Responsibilities, Objectives and Work Functions

By law, the Commission is responsible for regulating the rates, fees and operating practices of the privately owned water and sewer corporations that operate in Missouri. The Water and Sewer Department helps the Commission fulfill its responsibilities by providing technical expertise to the Commission on matters relating to water and sewer system operations and the tariffed rates, charges and services of regulated water and sewer companies.

The general objectives of the Department are twofold. The first objective is to ensure that the regulated water and sewer companies provide safe and adequate service to their customers at rates that are deemed just and reasonable. The second objective is to ensure that the companies provide service according to applicable Commission rules and procedures and the provisions of their Commission-approved tariffs. Specific aspects of the Department's work include:

* Evaluating company tariff filings to determine whether proposed new/revised tariff provisions comply with applicable Commission rules, policies and state laws;
* Reviewing existing company tariffs to determine whether the provisions of the tariffs continue to comply with applicable Commission rules, policies and state laws, as they change over time;
* Participating in the review of all requests for rate increases from the perspective of evaluating the appropriateness and the design of proposed rates and charges, the adequacy of system operations and the appropriateness of and/or need for system plant additions that have been or will be placed in service;
* Participating in the review of all applications for new/expanded certificated service areas from the perspective of evaluating the need for the service proposed, the reasonableness and design of the proposed rates and charges, the proposed system design, the plans for system operations and the overall project feasibility;
* Participating in the review of financing applications to determine the appropriateness of and/or need for projects being financed, as necessary;
* Conducting regularly scheduled field inspections to determine whether company facilities and overall system operations comply with applicable Commission rules, company tariff provisions and proper operational procedures;
* Interacting with company owners/operators regarding operational and technical matters;
* Investigating customer complaints and responding to customer inquiries concerning matters related to rates, charges, system operations and quality of service; and
* Providing training sessions and/or materials to industry personnel and PSC staff personnel regarding the small company rate increase procedure, rate design and other ratemaking matters.

* Providing expert testimony before the Commission on water and sewer cases pending before it, and providing technical advice to the Commission in its rulemaking actions on water and sewer matters.

Interaction With The Department Of Natural Resources

Of the utilities regulated by the Commission, water and sewer utilities are unique in that another state agency, the Department of Natural Resources (DNR), also has significant jurisdiction over the utilities. Specifically, the DNR's jurisdiction covers the area of the water and sewer utilities' compliance with applicable federal and state environmental and water quality laws and regulations.

While the Commission's rules provide for general oversight regarding water quality and sewage treatment standards, the Commission generally relies upon the DNR to determine whether the companies are complying with the applicable federal and state environmental and water quality laws and regulations.

Because of the overlapping jurisdiction between the Commission and the DNR, the staffs of the agencies attempt to work cooperatively in achieving the agencies' respective missions. For some time, the two agencies have shared information regarding companies for which the agencies share regulatory responsibilities, under the provisions of a Memorandum of Understanding (MOU) between the agencies.

However, the Commission and the DNR's Director recently pressed for improvements in the agencies' cooperation and coordination on overlapping matters, such as the DNR's issuance of construction and operating permits and the Commission's utility service area certification process.

As a result, the agencies' MOU was modified and now, among other things, includes provisions that will result in the streamlining of the application processes for new water system construction, permitting and certification, and which will better coordinate the agencies' respective review and approval processes for such systems. It is anticipated that such efforts will eventually extend to the permitting and certification of all water and wastewater systems for which the agencies share jurisdiction.

Small Company Rate Case Working Group

As part of an overall project regarding "case efficiency" undertaken by the Commission, Water and Sewer Department staff members participated in a Small Company Rate Case Working Group that was organized to review and suggest improvements to the small company rate increase procedure.

In addition to staff, members of this Working Group included representatives of small water and sewer companies (companies serving 8,000 or fewer customers), attorneys that regularly participate in cases before the Commission, representatives of the Office of the Public Counsel, Staff members from the Commission's Auditing, Management Services and Telecommunications Departments, and an attorney from the Commission's General Counsel's Office.

The Working Group's efforts resulted in the following agreed-upon projects related to the small company rate increase procedure:

(1) developing a "How To" booklet for the procedure;

(2) modifying the Staff's "activity timeline" for the procedure;

(3) modifying the Staff's "overview" of the procedure; and

(4) rewriting the Commission's rules regarding the procedure.

In addition to these projects, the first three of which have essentially been completed, the Working Group also agreed to continue to meet and discuss several other topics related to the small company rate increase procedure.

The Commission's Regulated Water and Sewer Companies

The Commission currently has jurisdiction over 58 active sewer companies and 68 active water companies, which operate in various locations throughout the state, and many of which have multiple service areas and systems.

The vast majority of the Commission's jurisdictional sewer and water utilities are very small, which presents unique situations with which the Commission and the Department Staff must deal.

Regulated Sewer Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
1,000 & Up	2	2,565	19.58
500 - 999	5	3,620	27.63
300 - 499	6	2,455	18.74
200 - 299	7	1,440	10.99
150 - 199	6	1,050	8.02
100 - 149	7	855	6.53
50 - 99	14	915	6.98
0 - 49	11	200	1.53
TOTALS	**58**	**13,100**	**100.0**

NOTE: Tables compiled 9/7/04 based on most recently available information. Customers rounded to the nearest "five."

Regulated Water Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
10,000 & Up	1	453,875	93.27
5,000 - 9,999	1	6,730	1.38
3,500 - 4,999	1	4,515	0.93
2,000 - 3,499	2	5,160	1.06
1,000 - 1,999	3	3,210	0.66
500 - 999	8	5,835	1.20
300 - 499	6	2,215	0.46
200 - 299	9	2,160	0.44
150 - 199	5	815	0.17
100 - 149	8	985	0.20
50 - 99	14	925	0.19
0 - 49	10	185	0.04
TOTALS	**68**	**486,610**	**100.0**

NOTE: Tables compiled 9/7/04 based on most recently available information. Customers rounded to the nearest "five."

Manufactured Housing and Modular Unit Program

The Manufactured Housing Department of the Public Service Commission is governed by Sections 700.010-700.470 of the Revised Statutes of Missouri.

The department is responsible for overseeing the annual registration of dealers and manufacturers of manufactured homes and modular units; prescribing and enforcing uniform construction standards and safety by conducting code inspections; and enforcing tie-down requirements.

There are 176 registered manufacturers and 330 registered manufactured housing dealers operating in Missouri.

The staff receives in excess of 200 phone calls monthly and receives in excess of 200 consumer inspection requests annually. Currently the staff consists of three full-time field inspectors, one part-time inspector and 2.5 office staff.

The PSC has a toll-free hotline for consumers who have questions and/or complaints regarding manufactured homes or modular units. The toll-free number is **1-800-819-3180.**

The sales of manufactured homes has declined during the past couple years; however, the sales of modular units has more than doubled during the past year. Modular units include resident homes, commercial and industrial units and educational units. Approximately 3,900 new manufactured homes and modular units were sold in the state during FY 2004. An additional 2,600 used homes were sold.

New Legislation

The Commission will be working with the industry regarding the implementation of Senate Bill 1096 passed during the 2004 legislative session. This bill includes federal mandates from the 2000 Federal Manufactured Housing Improvement Act. The mandates included in this legislation require the Commission to license all entities who install or setup manufactured homes, requires the PSC Staff to inspect a percentage of all new homes installed and establishes a dispute resolution process. The Commission plans to have the bill fully implemented prior to the December 2005 deadline.

STATISTICS FOR FISCAL YEAR 2004

Registered Manufacturers:	**176**
Registered Dealers:	**330**
Homes Sold (new & used):	**6,508**
Consumer Complaint Inspections:	**290**
Dealer Lots Inspected:	**582**
Modular Unit Seals Issued:	**1,546**
Modular Unit Plans Approved:	**988**

Source: PSC Manufactured Housing Department database

Home installers will be required to attend installation classes and be certified and licensed to install homes. The staff has established a committee of various representatives from the industry to draft rules to address specific concerns with the licensing and training of installers. It is estimated that between 200 to 300 individuals or companies will become licensed as installers.

During the past year the Commission has filed complaints against dealers for various non-compliance issues including complaints against dealers for selling homes without U.S. Department of Housing and Urban Development (HUD) labels, improper anchoring, operating without the required license and failing to make corrections in a timely manner. The staff is working to continue to ensure homes and commercial units are built and setup to the applicable building codes and safety standards to ensure safe and affordable housing for many moderate and lower income citizens.